

Colombo Suburban Railway Efficiency Improvement Project - 2023

The audit of financial statements of the Colombo Suburban Railway Efficiency Improvement Project for the year ended 31 December 2023 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Loan Agreement No. 3806 dated 20 August 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank (ADB). My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, the Ministry of Transport is the Executing Agency and Sri Lanka Railway is the Implementing Agency of the Project.

The objectives of the Project are to improve readiness of the priority Transport Project. The activities of the Project are implemented under (a) Operational efficiency Improvement (b) Maintenance capacity strengthened (c) Railway safety improved (d) Technical training centre upgraded, (e) Project implementation capacity and readiness of future railway projects strengthened.

As per the Loan Agreement, the estimated total cost of the Project was USD 148 million equivalents to Rs.47,216 million and out of that USD 125 million equivalents to Rs.39,970 million was agreed to be financed by Asian Development Bank(ADB). The balance amount of USD 23 million equivalent to Rs.7,246 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 06 September 2019 and scheduled to be completed by 31 December 2024.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit.

I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

No	Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
(a)	The budgeted commitment charges made to the Project as at 31 December 2023 was USD 350,000 by the ADB and even	126	Estimated committed charges in project administration manual have been exceeded due to delay in occurrence of planned	Disbursements planned according to the budget should be made in time to prevent the excess

though there is one more year remain for complete of the Project, the actual commitment charges was USD 788,399 thereafter the excess commitment charges was USD 438,399 equivalent to Rs.126 million.

disbursement in time as a result of commitment charges. five incidents.

(b)	The budgeted interest cost made by the ADB for the year under review was USD 1,030,000, however the actual interest cost was USD1,259,693 equivalent to Rs.430 million as at 31 December 2023, and excess interest cost was USD 229,693 equivalent to Rs. 79.2 million.	USD 229,693	The ADB recovers the loan interest directly from the loan account and the related details are communicated to the External Resources Department (ERD). As per the Project Administration Manual (PAM) cumulative loan interest allocation by the end of the year 2023 is USD 7,850,000. Whereas, actual interest for the period is USD 1,479,907 As such, it is clear that there is an underutilization of loan interest in the PAM. This has happened due to slow progress of disbursements. Further, it is expected to discuss about these changes during the forthcoming ADB midterm review mission and take the actions to revision of PAM.	Progress of disbursement should be kept in top level as budget to prevent the excess interest.
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3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Audit Issue	Response of the Management	Auditor's Recommendation
(a) Scope Changes	According to the revised Project Administration Manual dated 28 April 2023, it was observed that an additional cost of USD 15 million was required for the Project due to price variations and increase in other charges. With the aim of that, four sub-projects with an estimated cost of USD 10 million, which were included in the initial scope of the Project, had been decided not to be implemented.		

	<p>(i) It was observed that the School Lane Bridge Construction Sub-project, which should have been given priority for implementation according to the Feasibility Study Report conducted at the beginning of the Project, it has been decided to be stopped contrary to the recommendations of the said report.</p>	<p>According to the requests made by the Railway Department the scope of the Project has been changed after discussion in the Project Steering Committee. It does not conflict with the objectives of the project.</p>	<p>Scope changes should be made as per the Proper assessment and it should not be badly affect to the overall objectives of the project.</p>
	<p>(ii) Although special priority should be given for this School Lane to avoid traffic congestion between Dematagoda and Maradana railway stations, which was identified as the main cause of train delays in the feasibility study, it was observed that the decision of stopping this Sub-project was taken due to not commencing Sub-project. Accordingly, it was not observed that the decision taken by the Project Sub-committee to change the scope of the project was made with a proper assessment of the effect on the overall goals of the Project.</p>	<p>According to the requests made by the Railway Department, the scope of the project has been changed.</p>	<p>Scope changes should be made with the Proper assessment and it should not be badly affect to the overall objectives of the project.</p>
<p>b)Kandy Suburban Railway Project (KSRP)</p>	<p>It was observed that more than 04 years had been spent for financial, environmental, and social analysis, obtain detailed engineering plans, bidding documents, and final reports as well as assess the people of resettlement from the relevant consultancy company activities with an estimated cost of Rs. 194 million from 2019 to 2024, and the expenditure incurred as at 31 December 2023 was Rs.719 million.</p> <p>It was observed that the consultancy company has suspended the execution of the contract, and the funds required to start the Project have not yet been identified, and therefore, the above-mentioned reports may expire and the expenses incurred for the Project may be fruitless.</p>	<p>The scope of the project is only feasibility study and detailed design preparation, therefore all necessary steps are taken to fulfil it and providing the necessary funds to carry out the construction works is a function outside the project scope.</p>	<p>Project should be completed within the project scope and cost without any delay.</p>

(c)Island-wide Railway Telecom municati on System Improve ment Project

It was observed that a sum of Rs.1,901 million had been spent on modern railway communication system as at 31 December 2023 had become fruitless, due to the failure of practical usage of the Project and objectives had not been achieved.

Further, the following observations had been made according to the monthly maintenance reports prepared by the Contractor, field inspection and performance audit conducted by the Audit.

(i) A sum of Rs.274 million had been paid for the installation of communication devices in the locomotives to update the information regarding the train traffic at the train control centers and stations. Although it was informed that all system users should keep the relevant devices activated during working hours according to the Railway General Manager's Circular No. 09 dated 2 May 2023, it was observed in the audit that the train drivers are not accessing the system by using these devices. According to the monthly maintenance reports regarding the active use of these devices, the average percentage was only 11 per cent. It is also observed that this equipment is not being used efficiently and effectively, due to non-accessing and technical problems occurred in the equipment etc;

A committee has been appointed to take further action after discussing with the relevant officials regarding the non-use of the equipment. Further action is to be taken according to the said committee report.

The communication system should be operated with maximum efficiency and Officers should be compliance with the relevant Regulations.

(ii) A sum of Rs.132 million had been paid for providing of mobile phones to the officers who engaged in train operational duties under this Project. The information regarding train traffic needs to be updated by exchanging messages among officers, who work at relevant railway stations and control centers by using these phones.

A committee has been appointed to take further action after discussing with the relevant officials regarding the non-use of the equipment. Further action is to be taken according to the said committee report.

The communication system should be operated with maximum efficiency and Officers should be compliance with the relevant Regulations.

Because of the non-usage of the devices for the official works, It was observed that the actively usage of these devices was minimum.

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| <p>(iii) Although fixed telephones and devices valued at Rs.72 million had been installed expecting to maintain proper communication among officers engaged on railway duty in the railway stations, control centers, signal booths, and railway gates. It was observed that actively usage of said phones and devices was minimum due to technical errors and operational weaknesses, and System Monitoring Device (SMD) and Voice Recording Device (VRD), which were provided at the cost of Rs.61,457,916 for the train operation centers, also had not been used due to not accessing the system by train drivers.</p> | <p>A committee has been appointed to take further action after discussing with the relevant officials regarding the non-use of the equipment. Further action is to be taken according to the said committee report.</p> | <p>The communication system should be operated with maximum efficiency and officers should comply with the relevant Regulations.</p> |
| <p>(iv)The Communication network had not been constructed to cover 12.5 km of the upcountry railway (Mainline) and the total areas related to the railway tunnels. Because of that, continuous communication network had not been established according to the contract agreement.</p> | <p>No</p> | <p>Network should be established according to the contract agreement.</p> |
| <p>(v)The Contractor should carry out the maintenance and operational support of the communication system according to the service agreement during the period of the 9-years. However, there was a risk of not receiving the maintenance and repairs on free of charge during the warranty period may happen due to the contractor had not been informed about the technical errors of devices and other problems that occurred during the maintenance period by the SLR.</p> | <p>A maintenance service agreement has been signed with Dialog Axiata Plc and accordingly an operational committee and steering Committee had been appointed to take necessary action for the improvements/changes in the Communication system.</p> | <p>Contractor should have been informed regarding the technical errors and other issues according to the service agreement.</p> |
| <p>(vi)Appropriate approved staff should have been designed and assigned through the railway service, according to the system specification requirements to operate the system without interruption when the maintenance and operation of the communication system were handed over to the SLR. However, appropriate internal controls and suitable staff had not been identified and implemented at the Departmental Level.</p> | <p>Staff training has already been done and further training activities are expected to be implemented after the establishment of the system.</p> | <p>Appropriate internal controls should be introduced and implemented in accordance with the system specification requirements.</p> |

3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The following observations have been made regarding the construction of condominiums in Malapalla to resettle 120 families residing Right of Way (RoW) of the Kelani Valley Railway Line, using the ADB loan under the Colombo Suburban Railway Project.	The estimated price increase of Rs.858.5 million is subject to increase or decrease as the actual variation and payment are evaluated. Provision for this is included in the terms of the agreement and current market price fluctuations have affected this. Therefore, the contractor is contractually entitled to receive this payment.	Payments should be made in terms of the agreement and Contract should be completed on due date.
(i)	The contract had been awarded 05 months after receiving the approval of the Cabinet of Ministers for the award of the contract and accordingly, the Ministry of Transport had entered in to a contract agreement with Maga Engineering Pvt Ltd for a tax-free value of Rs.1,317 million. The contract had been scheduled to be commenced on 04 June 2021 and the contract period was 36 months from the acceptance date of contract. After the first extension of the construction period, construction works had been started on 21 June 2021 and scheduled to be completed on 4 June 2024. But according to the letter of the Project Director the starting date of the project was delayed by another 06 months to 5 January 2022.	The estimated price increase of Rs.858.5 million is subject to increase or decrease as the actual variation and payment are evaluated. Provision for this is included in the terms of the agreement and current market price fluctuations have affected this. Therefore, the contractor is contractually entitled to receive this payment.	Payments should be made in terms of the agreement and Contract should be completed on due date.
(ii)	The physical progress of the construction project is only 45 per cent as at 31 December 2023, and further uncertainties are seen about the completion and handing over the project on the scheduled date. It had been spent two years for the selection of the bidder for the Project from 2018 to 2021 and it was observed that 65 per cent price variation due to the extension of days given for the delays had occurred from time to time.	Physical progress is 45% as at 31.12.2023 and it has achieved 76% progress so far (20.05.2024). In accordance with the revised work plan, work is already being done to complete it by November 11 this year without any delay.	Project should be completed in accordance with the revised work plan without any delay.
(b)	(i) It was observed that after a long tender evaluation process started in 2018 for the Smart Ticketing System for the Sri Lanka Railway, a contract had been signed with a private company in 2019 for the completion of the project on 31 May 2021 at a cost of USD 19 million. The project completion date had been extended up to 31 December 2024 according to the revised project administration manual. A sum of Rs.321 million had been paid as an advance and a	Although two years have passed since the implementation of this contract, there is backwardness in the delivery of its outputs. The delay in identifying the need of the Railway Department by the contractor and the instability in the	Project should be completed without any delay and the payments should be made in accordance with the contract agreement.

consultation had been hired from the year 2020 for activities related to the Project. It was also observed that an amount of Rs.21 million had been paid as consultancy fees without having any progress of the Project.

country at that time has directly affected for this.

(iii) It was observed that there is an uncertainty of completing the Project on the scheduled date and not to be achieved the expected performance due to the physical progress was 34 per cent as at 30 June 2024 and inefficiency of the entire procurement process.

There is a slowdown in physical functioning performance and work is going on according to the contract agreement to complete the project within the stipulated time.

Project should be completed without any delay.